

DOUGLAS COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The County Should Improve Internal Controls Over Cash Receipts At The Departmental Level

During our review of cash receipting procedures at various county departments, we noted the following internal control weaknesses:

- a. Improper segregation of duties exist. The same individual receipts the funds, records the deposits, makes the deposits, and reconciles the receipts without any independent review at the Land Services, Fair, and the Auditor's Offices.
- b. Receipts are kept in unsecured areas at the Sheriff's, Land Services, and Mental Health Offices.
- c. Receipts are not deposited in a timely manner at the Sheriff's and Land Services Offices.
- d. Redi-form receipts are used at the District Court and Land Services Offices. Redi-form receipts do not allow for the numeric sequence of these receipt forms to be under management's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.
- e. Checks received for payment are not restrictively endorsed immediately upon receipt at the Sheriff's and Land Services Offices.
- f. The Sheriff's Office does not apply internal controls to payments received through the mail.
- g. The Land Services Office does not mark the mode of payment on the receipt. Without the notation of the mode of payment, no assurance can be made that receipts were deposited intact.

RCW 43.09.240 states:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours.

In addition, the *Budgeting, Accounting and Reporting System* (BARS) manual, Volume 1, Part 3, Chapter 1, pages 22-24 states in part:

Internal control systems and all other significant events are to be clearly documented, and the documentation is to be readily available for

examination.

Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of the resources to be assigned and maintained.

The absence of adequate internal controls over cash receipts increases the risk errors and/or irregularities could occur and not be detected in a timely manner.

These conditions occurred because the county does not have written procedures from which to establish and maintain proper control over county cash receipting.

We recommend the county strengthen internal controls over cash receipting. We further recommend the county establish policies and procedures governing cash receipting at the decentralized locations.

2. The County Should Implement Cash Receipt Internal Controls In The Animal Control Department

During our audit of the Douglas County Animal Control Department we noted material internal control weaknesses in the cash receipting system as follows:

- a. Numerous animal licenses and intake forms (completed when an animal is captured and eventually returned to the owner) could not be located. These forms act as the initial receipt form (transaction source document).
- b. Cash receipts are not remitted to the county treasurer in a timely manner.
- c. Treasurer transmittals are not retained after a deposit has been made.
- d. The department improperly allows a company outside the control of the county to receive payments on its behalf without a formal contract.
- e. Cash receipts are kept in an unlocked desk drawer in an area accessible to transportation service employees and often unsupervised by department personnel.

RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees or other persons.

The accounts shall show the receipt, use, and disposition of all public property . . . all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction . . . (Emphasis added.)

In addition, the *Budgeting, Accounting and Reporting System* (BARS) manual, Volume 1, Part 3, Chapter 1, pages 22-24 states in part:

Internal control systems and all other significant events are to be clearly documented, and the documentation is to be readily available for examination.

Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained.

The absence of adequate internal controls over the cash receipts increases the risk errors and/or irregularities could occur and not be detected in a timely manner.

We recommend the Douglas County Animal Control Department implement internal control procedures over the cash receipting function. We further recommend the department complete a contract with the private company performing cash receipting functions for the department.

3. The County Should Consider The Administrator Of The Regional Support Network As An Employee And Report His Earnings To Appropriate State And Federal Agencies

The county inappropriately paid an employee, the administrator of the Regional Support Network, on a personal service contract. The employee, a PERS I retiree, was not reported to the Department of Retirement Systems as working in an eligible position.

RCW 50.04.140 states in part:

... remuneration for services rendered by an individual is reportable employment unless it can be shown that the individual meets all (emphasis ours) three of the tests of "independence" shown below:

... (1)(a) Such individual has been and will continue to be free from control or direction over the performance of such service, both under his or her contract of service and in fact; and

(b) Such service is either outside the usual course of business for which such service is performed, or that such service is performed outside of all the places of business of the enterprises for which such service is performed; and

(c) Such individual is customarily engaged in an independently established trade, occupation, profession, or business of the same nature as that involved in the contract service . . .

In addition, RCW 41.40.023 states in part:

Membership in the retirement system shall consist of all regularly compensated employees . . . with the following exceptions:

(12) Plan I retirees employed in eligible positions on a temporary basis for a period not to exceed five months in a calendar year: PROVIDED, if such employees are employed for more than five months in a calendar year in an eligible position they shall become members of the system prospectively . . .

Internal Revenue Service, Circular E, Publication 15, also states, that if the employer "has the legal right to control the method and result of the service" the individual is an employee.

We found that the individual, considered to be an independent contractor by the county, clearly did not meet all of the tests described in the above paragraphs.

The county failed to report the wages and hours and consider the individual as an employee because it was unaware of the above mentioned requirements.

Failing to properly recognize the individual as an employee could expose the county to liability for unemployment claims, unpaid Federal Insurance Contribution Act (FICA) taxes, withheld federal income taxes, and retirement contributions.

We recommend the county recognize as an employee, including proper reporting to state and federal agencies, any individual who performs services for the county and does not meet the above criteria for an independent contractor.

4. The County Should Ensure That Restricted County Road Funds Are Used For County Road Purposes

Our audit disclosed that the county utilized revenues of the County Road Fund to cover operating expenditures that were not directly related to authorized county road purposes. In 1996, the county budgeted an operating transfer from the County Road Fund to the Land Services Fund for \$100,000 to cover Land Services Fund operating expenses. During 1995, the county paid for costs incurred by the Land Service Fund with restricted county road revenues.

The Revised Code of Washington (RCW) 36.82.020 states:

Any funds accruing to and to be deposited in the county road fund arising from any levy in any road district shall be expended for proper county road purposes.

RCW 43.09.210 further states in part:

All services rendered by . . . one department . . . to another, shall be paid for at its true and full value by the department . . . receiving the same, and no department shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

RCW 36.82.040 allows counties to divert county road tax revenues by budgeting them into a separate and identifiable account within the Current Expense Fund; however, the county elected not to utilize this option.

As a result of the conditions described above, land services operations were financed by tax revenues appropriated for county road purposes.

We recommend county officials ensure that operations for each fund are financed by appropriations for that fund made according to statutory requirements. We further recommend that the county either apply the statutory requirements to divert the county road tax revenues already diverted or return the revenues to the County Road Fund.

5. The County Should Improve Internal Controls Over Petty Cash

During our review of the petty cash funds at the various county departments, we noted the following weaknesses in internal controls:

- a. With the exception of the Regional Support Network and county road accounts, resolutions do not name a custodian of each account.
- b. The account balance established by the following departments does not agree to the amount authorized by the commissioner's resolution: Assessor's Office, Auditor's Office, Parks Department, Veteran's Relief, and Mental Health.
- c. Petty cash accounts are not being reconciled to the authorized balance nor being replenished on a timely basis. This occurred at the Mental Health, Parks, Veteran's Relief, and Auditor's Offices.
- d. Petty cash funds at the following locations did not reconcile to the authorized fund balance at the time of our surprise cash counts: NCW District Fair, Mental Health, District Court, Assessor's Office, and Auditor's Office.

The *Budgeting, Accounting and Reporting System* (BARS) manual, Volume 1, Part 3, Chapter 3, pages 23-24 states in part:

... The governing body or its delegate must appoint one custodian of each petty cash account ... (Emphasis added.)

... The governing body must include the authorized amount of all such petty cash in the local government's balance sheet.

... If the petty cash is disbursed, it must be replenished at least monthly . . .

... At the time of replenishment, the custodian should ensure that the balance remaining in petty cash, together with the amount of the replenishment voucher, equals the authorized imprest account . . .

The absence of adequate internal controls over the petty cash accounts increases the risk errors and/or irregularities could occur and not be detected in a timely manner.

These conditions occurred because the county did not implement the minimum requirements for establishment and operation of petty cash accounts as required.

We recommend the county improve internal controls over petty cash funds by implementing the procedures for establishment and operation of petty cash accounts as prescribed in the BARS manual.